Governor's Dry Cleaner Environmental Response Council

State of Wisconsin | James Doyle, Governor

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Wausau Chemical Corporation

Governor Jim Doyle
State Capitol
Madison, WI

December 18, 2006

Dear Governor Doyle and State Representatives,

The Governor's Council for the Dry Cleaner Environmental Response Program (DERP) is pleased to provide this 5-year Program Evaluation Report. This report is intended to meet the statutory requirements contained in s. 292.65(13) Wis. Stats.

The Dry Cleaner Environmental Response Program is an outstanding example of cooperation between industry and DNR. The costs of DERP are almost entirely underwritten by the dry cleaning industry. The industry is proactive in addressing environmental cleanup at dry cleaner facilities. This effort restores value to many family-owed businesses, allows second and third generation owners to continue in the family business, and, in large measure, avoids the use of limited public funds to cleanup properties that might otherwise be abandoned. This program is a win-win for the State – dry cleaners fund DNR and DOR administrative costs of the program without a need for increased tax revenues.

The 5-year Program Evaluation addresses current and future funding of the program. The Fund has provided over $10,000,000 in the past 10 years to begin investigation and cleanup at over 80 dry cleaner facilities. Over 160 dry cleaners are expected to voluntarily enter the program. The demand on the Fund is expected to outstrip current fee revenues for about the next 5 years. This short fall in revenue means that individual business owners could end up carrying cleanup financing costs for as long as 10 years. However, dry cleaner fees are authorized for 25 years (until 2032) which creates a revenue stream that is sufficient to cover the projected shortfall in current cash flow.

The Council unanimously supports and recommends an FY08/09 budget initiative comprised of two parts. First, that the dry cleaner fee be increased from 1.8% to 2.8%. Second, that $8,500,000 is raised in State bonds over a 4-year period. The bonds will be paid from future dry cleaner fee revenue. Our estimates project repayment of the bonds by FY22. Adequate funding is critical to the continued confidence of dry cleaners and their voluntary participation in DERP. Dry cleaners are committed to their communities and are good citizens. The cost of this bonding initiative will be borne by the industry.

This proposal allows the dry cleaning industry to build upon 7 years of success in DERP. Working together, we can sustain family owned businesses and environmental remediation. We can continue to ensure that communities throughout Wisconsin benefit from the economic and environmental advantages of the Dry Cleaner Environmental Response Program.

Sincerely,

Richard W. Klinke, Chair
Governor's Dry Cleaner Environmental Response Council

Dry Cleaner Environmental Response Program
5 Year Program Evaluation
December 2006

Prepared by
Wisconsin Dry Cleaner Environmental Response Council
December 18, 2006

Summary

The Dry Cleaner Environmental Response Council is responsible for providing oversight and direction to the Dry Cleaner Environmental Response Program (DERP) and for ensuring stable funding of the program. As part of this responsibility, the Council is providing this 5-year Program Evaluation to the Governor, Legislature, and the public.

We have evaluated the program based on three criteria: cooperation between DNR, DOR, and dry cleaners in the implementation of the program; effective use of the Fund to remediate contaminated properties; and sustainability of the Fund over the next 5 years.

We conclude that DERP is working very well to achieve the goals set out by the dry cleaner industry and DNR. The relationship with DNR has been constructive and important to DERP. Moreover, maintaining an effective Brownfields program at DNR is important to the success of DERP. The Dry Cleaner Fund has a solid revenue cash flow for the next 25 years. However, the Fund faces a short fall in revenues over the next 5 years. The Council makes the following recommendations:

1. **Increase in the DERF fee to 2.8% and that the State implement revenue bonding sufficient to provide funding during the next 5 year peak demand with principle and interest paid by the future cash flow from DERF fees.**
2. **That there is closer coordination between DNR and DOR particularly in respect to identifying unlicensed dry cleaners in the state.**

Background

The Dry Cleaner Environmental Response Fund (DERF) Program was established by the Legislature working with the dry cleaning industry in the 1997 – 1998 biennial budget. Sections 292.65, 292.66, and Sects. 77.996 – 77.9964, Wis. Stats., provide specific details for program implementation and fee assessment for this program, respectively. The Wisconsin Department of Natural Resources (DNR) is charged with implementing the program, while the Wisconsin Department of Revenue is responsible for licensing facilities and collecting fees from facilities and solvent suppliers. Chapter NR 169, Wisconsin Administrative Code, establishes the criteria for reimbursement from the Dry Cleaner Environmental Response Fund ("Fund"). This fund was designed by the Wisconsin Fabricare Institute (WFI) to help dry cleaners pay for environmental cleanup costs as a result of a discharge of a dry cleaning chemical at a dry cleaning facility. Cleanups conducted under this program must comply with the DNR's rules in Chapter NR 700 to 754, Wisconsin Administrative Code.

Four staff positions are funded by the DERF program - one position in the Department of Revenue and three positions in the Department of Natural Resources (one position in the Bureau of Community Financial Assistance and two technical field positions in the Remediation and Redevelopment program for technical support of remediation activities). The Department of Revenue is responsible for licensing dry cleaning facilities and collecting solvent fees from chemical manufacturers. The Department of Natural Resources is responsible for overseeing the cleanups and administering the reimbursement portion of the program.

There are currently 238 licensed dry cleaners in Wisconsin, with 283 registered dry cleaning sites. A dry cleaner receives a license from DOR. The license is permanent and is transferable if the business is sold. License fees of 1.8% of gross dry cleaning revenues provide the bulk of the money in the Fund. The remaining money in the Fund comes from solvent fees ($5 per gallon on perchloroethylene; and $.75 per gallon on other dry cleaning products) paid by chemical suppliers and interest. Dry cleaners have until August 30, 2008 to enter the program. License fees for the program are authorized until 2032. The maximum reimbursement for any dry cleaner site is $500,000.

Section 15.347(2), Wis. Stats., establishes a six-member Governor's Dry Cleaner Environmental Response Council to advise DNR concerning the program. The Council consists of the following members appointed by the Governor for three-year terms: (a) one representative of dry cleaning operations with annual gross receipts of less than $200,000; (b) two representatives of dry cleaning operations with annual gross receipts of at least $200,000; (c) one representative of wholesale distributors of dry cleaning solvent; (d) one engineer or hydrogeologist with knowledge, experience or education concerning environmental remediation; and (e) one representative of manufacturers and sellers of dry cleaning equipment. The Council meets biannually to discuss various aspects of the program. The Council works with the DNR to achieve consensus on all statutory language changes as well as rule-making.

Section 292.65(13) requires the Council to establish criteria and evaluate DERF every 5 years. This paper provides the evaluation and recommends actions to sustain the Fund through the next 5 years.

The Council has chosen the following criteria for this evaluation:

I. Cooperation between DNR, DOR, and dry cleaners in the implementation of the program.
II. Effective use of the Fund to remediate contaminated properties.
III. Sustainability of the Fund over the next 5 years.

Recommendations to continue the effectiveness of the DERF program are found at the end of this paper.

Evaluation

I. <u>Cooperation between DNR, DOR, and dry cleaners in the implementation of the dry cleaner remediation program.</u>

DERF was established by the dry cleaning industry in an effort to help dry cleaners, who are primarily comprised of small business men and women, deal with the significant expense associated with soil and groundwater contamination. Most of the environmental contamination at dry cleaners originates from historical releases of dry cleaning chemicals in the years before modern dry cleaning and chemical handling systems existed. The majority of dry cleaner owners are unaware of environmental contamination on their property until they are ready to sell their business and the property transaction requires certification of environmental conditions. The goals of DERF are to share the costs of environmental remediation across the industry, to limit the financial affects of environmental contamination on individual owners, and to achieve acceptable environmental quality for the neighborhoods and communities where dry cleaners operate.

DNR has cooperated with the industry in these goals. The DNR manages DERP as part of their overall Brownfields responsibilities. An example of this is the use of DERP with other Brownfield tools, such as the Revolving Loan Fund, to achieve cleanup goals and redevelopment goals. The cooperative implementation of DERP and Brownfield programs supports neighborhood revitalization, increased tax revenues for municipalities and business development.

The DERP enabling State statute, ss 292.65, has undergone several revisions since it was codified in by Act 27 in 1997. These changes, along with subsequent administrative rule revisions were necessary due evolution and maturation of the program. The DNR authored chapter NR 169, Dry Cleaner Environmental Response Program, to implements the statutory authority of ss. 292.65, Stats., in 2000. Major revisions of the rule occurred in 2003 and 2005. Each of the rule writing efforts has included members of the Council, consultants and others to advise and review the rule language. DNR has, in large part, responded to expressed industry needs. An example of this is rule change in 2005 to allow interim payment of site investigation costs. Prior to the 2005 rule, dry cleaners had to complete the entire site investigation (at an average cost of approximately $50,000) before being reimbursed for those costs. The dry cleaner's financing costs (which are not reimbursable) were significant. The rule now allows up to 4 partial site investigation reimbursement payments. This allows dry cleaners to carry less debt load but has resulted in increased DNR work load in reviewing more claims and in a greater demand on the Fund, at least temporarily, as a number of initial partial payment claims were made after August 2005, when the rule became effective.

The Governor's Council and DNR staff managing the Fund meet approximately semi-annually to discuss program management and revenue issues. These meetings help determine program direction and allow any issues about the program to be discussed and resolved. The major issue in 2005/2006 has been the solvency of the fund and approaches that can be taken to address long-term demand on the Fund. This is discussed later in this paper.

Dry cleaners and DNR staff interact on specific site cleanup cases. In general, the relationship between dry cleaner owners and DNR staff is excellent. DNR staff are very helpful in guiding owners through the cleanup process and helping owners assess consultant proposals for site investigations and possible remedial actions. DNR staff work with consultants to help ensure cost effective cleanup proposals. Required DNR reviews are usually completed in a timely fashion so that field work can progress.

Owners are concerned about the time required for environmental cleanups. The complicated nature of the chemicals involved and the location of the business (e.g., situated in strip malls or other locations that are difficult to investigate) make investigation and remediation difficult. Site investigations often occur in phases and may require changes to the estimated costs because contamination may be more widespread than originally believed. A phased process can be frustrating for owners who expect a definite timeline for cleanup; however, the phased process should be more cost effective because it allows data to be collected in focused ways. Another concern is that costs increase as investigations lengthen. Things such as deductibles, finance charges, and property transactions all serve to keep the owner involved in managing the cleanup and controlling costs.

DOR collects dry cleaner license and solvent fees, issues licenses to dry cleaners, and tracts payment of fees for the Program. An owner's cleanup costs can not be reimbursed if the site is not up-to-date with fee payments. This has become an issue recently because dry cleaner establishments can change owners during the cleanup process. The person conducting the cleanup may not be the person operating the dry cleaning business. If the current operator is in arrears on fees, the previous owner risks not being reimbursed for cleanup costs. The Council and DNR have discussed this issue. The consensus is that more enforcement of fee payment is needed. The program can operate only as long as all active dry cleaners are paying fees into the Fund. The DNR will reimburse cleanup costs if DOR is able to work out a payment schedule for back fees, penalties, and interest with the dry cleaner owner/operator.

II. <u>Effective use of the Fund to remediate contaminated properties</u>

Effective fund use involves consistent and fair collection of fees that support the program as well as effective expenditures to support the goal of cleanup of environmental contamination while limiting the fiscal impact to individual dry cleaner owners.

A. Fund Revenues

Funding for DERF is provided from three sources: 1.8% license fee on gross dry cleaning revenues, dry cleaning solvent fees, and interest paid on the collected revenues. At the beginning of the program, in 1998, a one-time solvent inventory fee was paid by all dry cleaners. Table 1 shows all revenues collected as of November 30, 2006 and Figure 1 shows the breakdown of revenues by fee category. The license fees generate the vast majority (almost 80%) of revenues. As of November 30, 2006, over $10 million has been generated to fund DERF.

It is difficult to determine the percent of dry cleaning businesses that are in compliance with licensing requirements because dry cleaners must self-identify their business to Department of Revenue and pay the 1.8% fee on gross dry cleaning revenues quarterly. There is no mechanism to routinely check for compliance with fee payments. DOR runs compliance reports when DNR requests these. DNR requests a fee compliance report for every reimbursement request. If an owner is not current with fee payments, the reimbursement payment is held until the owner makes arrangements with DOR for payment of the fees. Owners who have sold their dry cleaning business but retain the responsibility for environmental cleanup can be caught in a quandary if the subsequent owner fails to stay current with fee payment. Most of these situations have been resolved between the operating dry cleaner and DOR.

All revenue sources contributing to the Fund are expected to decline. The number of dry cleaner businesses in the State is declining. In 2001 there were 350 licensed dry cleaners compared to 238 in 2006. Less solvent is being used due to more efficient dry cleaning equipment and fewer machines in use. Current dry cleaning technology distills and recondenses the solvent, allowing it to be reused. A one-time solvent fee was paid by dry cleaners at the inception of the program. Since that time, solvent fees are paid by the solvent supplier. The number of solvent suppliers has decreased 40% (from 15 to 9) in the last 5 years. Finally, interest payments will decrease in the future because there will no longer be carry over of funds from one fiscal year to the next.

B. Expenditures for State Administration

Four FTEs (full time equivalent positions) are funded by DERF, one position in Department of Revenue and three positions in DNR. In FY 2006, this amounted to $249,850. State employee positions represent 18.7% ($1,996,800) of the total fees ($10,660,500) expected to be paid between FY97 and the end of FY07. Of the four FTE, the Department of Revenue (DOR) position is needed to collect the revenues and issue licenses to dry cleaners. DOR also tracks changes in business ownership. The DNR Fund Administrator contacts DOR before paying each reimbursement request to determine that fees paid by the owner/operator of the dry cleaner facility are up-to-date. It is not unusual to discover that fees are in arrears, particularly if ownership of the facility has changed hands.

Three FTEs are supported in DNR. Funds for two FTE support DNR hydrogeologists who provide technical oversight of the cleanup, including review of all reports required by the NR 700 series (the administrative code governing cleanup activities); oversight, review, and approval of all bid actions; review and approval of work plans and change orders; initial review of all reimbursement requests; and support to help owners as they work through the environmental cleanup. The Fund Administrator is a DNR staff position dedicated to management of the fund. The Fund Administrator audits all payment requests to ensure that costs claimed are eligible for reimbursement; arranges for reimbursement payments to dry cleaners; interfaces with DOR to confirm fees have been paid; and tracks revenues and expenditures for the Fund. The number of reimbursement payments has grown steadily (see Table 3). The first reimbursement payments were made in 2001, with 19 payments made in that year. There were 49 reimbursement payments in 2006; 32 reimbursement requests have been received in the 1st 5 months of FY07. This growth in work load has resulted in a lengthening of time between reimbursement request and payment. It now takes about 120 days for payment of reimbursement requests.

C. **Expenditures for Cleanup of Dry Cleaner Properties**

1. <u>Participation and Progress of Cleanups at Dry Cleaners</u>. As of November 2006, 138 properties have entered the Dry Cleaner Environmental Response Program. Of these, 57 sites (41%) have completed a site investigation and begun cleanup actions. A total of 22 (16%) of these sites have received final closure from the DNR. Because DERF is a voluntary reimbursement program, owners must make decisions on when they apply to the program and will start the investigation and cleanup process. These decisions are largely controlled by property transactions and by the amount of money the owner can afford to spend on the cleanup at any given time. The Fund does not reimburse financing costs and a number of other costs that are associated with cleanup but not integral to the cleanup process. The site investigation process, which defines where and how much soil and groundwater contamination exists at a property, can take 2 to 3 years. Because financing costs can be significant over this period of time, a rule revision in August 2005 allowed for up to three interim and one final reimbursement of site investigation costs. This is one reason why the reimbursement requests increased significantly in FY2006.

2. <u>Average Costs Per Site</u>. It is difficult to accurately describe “average” costs of a site investigation or remediation because each contaminated site is unique. We know “average” costs are not accurate predictors for future costs expenditures from the program, however we can use average costs to tell us about cost expenditures to date. It’s important to understand that reimbursed costs do not represent actual costs paid by dry cleaners because they must pay deductibles, financing and other costs that are not reimbursable. Other sources of funding (e.g., brownfield redevelopment) and the DERF reimbursement cap[1] ($500,000) make it difficult to obtain accurate cleanup costs.

Statistics on past costs are inaccurate for predicting future costs for several reasons. Sites with little contamination are cleaned up quickly and have low costs. These sites tend to

[1] Costs incurred beyond $500,000 can not be tracked because they are not submitted to DERF.

be the sites that are closed first. Sites with significant contamination and public health risks (caused by contaminated groundwater or vapor intrusion into homes, for instance) are usually more costly to cleanup and take longer to complete the cleanup process. These more difficult sites are underrepresented in the cost averages because the cleanup effort is on-going and we don't know what the total costs will ultimately be. In general, we expect "average" cleanup costs listed in this evaluation to increase for several reasons:

a. The "universe" or total number of dry cleaner sites eligible for the Fund has not been defined. It is likely that many dry cleaners will enter near the sunset date of the program (August 30, 2008) or that the sunset date will be extended. In either case, significant growth in number of sites in the program is expected. As more sites enter the program, it's likely that cost averages will increase.
b. More complicated sites with higher costs will be completed with time and these higher costs will be reflected in increased averages.
c. Assessment of contaminant migration through soil vapors. In the last few years industry and regulatory agencies have become aware that chemicals such as Perchloroethene (PCE, the most common dry cleaning solvent) can present a public health risk by moving as vapors through soil and enter homes and businesses. The vapor contaminant "pathway" will lead to additional investigation costs (because soil vapor has not routinely been tested in the past) and may result in additional cleanup costs.
d. Inflation and other cost increases will tend to increase the total cost of site cleanup.

Table 2 presents minimum and maximum costs submitted for reimbursement and average costs for site investigations and remedial actions. To put these costs into context, average costs reported to the State Coalition for Remediation of Drycleaners (SCRD) for site investigation and total costs to closure for dry cleaners around the United States are also included. The average cost for a complete site investigation at a dry cleaner site in Wisconsin is $53,500 based on 57 sites. By comparison, the average cost for a complete site investigation in 13 States participating in SCRD is $127,800[2]. Cost to closure is more difficult to compare because Wisconsin's average cost to closure ($76,000) is only $23,000 more than the average SI cost. This supports the assumption that most of the 22 closed DERF sites have needed relatively simple remedies. The maximum cost to closure reimbursed to date is over $483,000. There are several DERF sites still in remediation that are approaching the $500,000 reimbursement cap. The number of DERF sites undergoing remedial action is increasing and we should expect that costs to closure will increase. For projection purposes, the DNR estimates that, on average, cost to closure per DERF site will average $145,000.

3. <u>How the Fund is Spent</u>. Cleanup costs for dry cleaners are tracked by several categories, including soil investigation/remediation; and groundwater investigation/remediation; vapor investigation/remediation; laboratory and miscellaneous costs; and deductible costs. Figure 2 presents a breakdown of DERF cost categories.

[2] The 85 SCRD sites with complete site investigations include 8 sites from Wisconsin.

Remediation costs make up 50% of the costs claimed for reimbursement. Investigation costs make up 31% of claimed costs. Deductibles (9%) and laboratory and miscellaneous costs (9%) make up the bulk of the remainder. These figures indicate that emphasis in the Dry Cleaner cleanup program is on remediation.

4. Where the Fund is Spent. Figures 3, 4, and 5 show where money has been reimbursed by County (Figure 3), Senate District (Figure 4) and Assembly District (Figure 5). The number of dry cleaning businesses reflects the population centers. Half of all dry cleaners in the State are located in the southeastern part of the State, which is where most of the reimbursements have been made. The Southern and Northeastern counties account for most of the remaining areas where reimbursements have been made.

D. **Cost Controls**

Several cost controls are built into DERF. These include:

1. Codified eligible and ineligible costs. NR 169 specifies which costs are eligible for reimbursement and which are not. These lists have been expanded over the last 6 years. Every reimbursement application is audited and only eligible costs are reimbursed.

2. Penalty for submitting ineligible costs. There is a statutory requirement that penalizes any ineligible cost submitted for reimbursement. Owner/operators or consultants may indicate what costs have been incurred, but can not claim ineligible costs for reimbursement. The statute specifies a 50% penalty for claimed, ineligible costs. If the dry cleaner submits ineligible costs, then the ineligible cost plus 50% of the ineligible cost is subtracted from the reimbursement. If a consultant submits an ineligible cost, then the ineligible cost is subtracted from the reimbursement and the consultant is required to reimburse to the DNR the 50% penalty. The penalties are paid into the Fund.

3. Bid requirements. All site investigation and remedial actions are required to be competitively bid. NR 169 requires that 3 to 6 sealed bids be submitted to the owner/operator and the DNR for each of these phases of investigation. The sealed bids are intended to promote true competition. The owner/operator selects the bidder s/he wishes to work with. The lowest bidder does not need to be selected; however, the owner/operator must justify to the DNR his/her reasons for selecting a bidder other than the lowest bidder. The owner can not be reimbursed more than the lowest cost alternative approved by the DNR.

4. Expenditures must receive prior DNR approval. Most expenditures, bid or non-bid, must be approved by the DNR Project manager before being incurred. The DNR Project Manager must also approve the costs submitted for reimbursement prior to the reimbursement being audited by the DNR's Community Financial Specialist. Any change orders to original bids must be approved by the DNR if the change order is more than $3,000. In practice owners/operators generally seek DNR approval on all change orders because they know that the DNR Project Manager must approve all submitted costs before reimbursement can be made.

Immediate actions are not required to be bid, but must be approved by the DNR. To date, no immediate actions costs have been submitted for reimbursement by the Fund. Interim actions may or may not be bid at the discretion of the DNR Project Manager. Interim actions are implemented during the site investigation usually when a short, fairly quick remedy (such as soil removal) is needed. Interim actions are often linked to property redevelopment where contaminated soil becomes accessible for removal and quick action will result in significant environmental improvement.

III. Sustainability of the Fund over the next 5 years

As noted above, the demand on the Fund has increased with time, as is expected of a maturing program as many sites transition from site investigation to active remediation. In the FY06/07 biennium, the Legislature authorized an additional $1.55 million over and above the $1.1 million/fiscal year authorized due to annual program revenues. The additional money accrued in the DERF account from the early years of fee collection. The additional spending authority came just as demand has exceeded the revenue. FY06 revenues were just over $1.1 million while more than $1.7 million was paid out in reimbursements.

The Fund is projected to run deficits beginning in FY07. The total spending authority for FY06/07 was $3.6 million. That entire amount is expected to be claimed by February 2007. Current projections (based on a total cost of $145,000 per site) estimates that nearly $17 million will be needed over the next 7 years (2013) to meet cleanup demand. The statutorily imposed dry cleaning fee is authorized until 2032. The fee is projected to produce the needed revenues by approximately 2020. This projected 7 year difference in cash balance results in delayed reimbursement beyond what a small business can successfully carry in financing costs. The reality of this delay is already resulting in dry cleaners refusing to enter the DERF cleanup program for fear that they will not be reimbursed in a timely fashion. August 30, 2008 is the deadline for new applicants to enter the DERF program.

A. Current and Projected Fiscal Status

Table 3, "total reimbursed column" summarizes the actual demand on the program since it began in 1997. Table 4 outlines the projected demand on the program.

In the last two years several rule and administrative changes have been implemented to better meet the needs of dry cleaners, but have also resulted in a greater demand on the Fund. They are:

- Allowing interim reimbursement of site investigation costs.
- Redefining eligible certain costs. This is intended to better serve the business needs of dry cleaners along with the environmental needs.

Both have resulted in more demand on DNR time and greater demand for scarce funds.

B. Funding Options for Stabilizing DERF

The Council has discussed several options to stabilize future funding of DERF, including:

1. Increase Dry Cleaner Licensing Fees. The affect of fee increases are summarized in Table 5. The Governor's Dry Cleaner Council recognizes that dry cleaning business is declining statewide and that some increase in fees will be necessary to maintain current revenues. To cover the shortfall faced by DERF, the Governor's council supports a fee increase to 2.8%. This would generate approximately $1.425 million in revenues. In supporting this fee increase the Governor's Council wants the State to provide a $1.425 million match, for a total revenue stream of about $2.85 million/year. The source of the State matching funds has not been resolved. Use of PECFA revenues has been discussed.
2. State Revenue Bonds. The Governor's Dry Cleaner Council has discussed drawing on future revenue fees by bonding. The cost of revenue bonds maybe prohibitive to a program as small as DERF; however, it may be possible to add the DERF bonding to other state financing programs. The DERF fee income would fund debt retirement. Table 6 provides funding scenarios with a fee increase of 2.8% and the use of $8.5 million in revenue bonds.
3. Sales tax based fee. Some states dedicate a portion of the sales tax collected from dry cleaners to cleanup of dry cleaner properties. It's unlikely that the Wisconsin legislature would support this alternative.

C. DNR Revenues to Support DERF

In an effort to meet the needs of the dry cleaners, including the previously mentioned rule and administrative changes, the Department's Remediation & Redevelopment (RR) Program has also provided more services than is funded by the dry cleaner fees. The RR program has 2 FTEs funded by DERF and Community Financial Assistance (CFA) has 1 FTE totaling 3 FTEs in DNR. The CFA position is dedicated 100% to dry cleaner issues. The RR program currently dedicates approximately 2.5 FTEs to dry cleaner issues.

The DNR has agreed to not charge fees for a number of specific items related to a site cleanup in recognition of DERF funding 2 FTEs. As the program has grown, some dry cleaners have asked for additional resources, plus as stated before, the changes made in the program have resulted in more DNR RR time being taken. The program, with the concurrence of the Governor's Dry Cleaner Council, has begun charging fees for items beyond the agreed upon core elements.

IV. Conclusion and Recommendations

The Dry Cleaner Environmental Response Program is working very well to address the cleanup and remediation of historical and active dry cleaning sites. This industry funded program is a success story with credit to DNR and DOR staff and the dry cleaning industry for vision in developing and modifying DERP to meet several challenges.

The significant challenge before DERF at this time is funding a projected peak demand over the next 3 to 4 years. While DERF has a solid annual cash flow, it lacks sufficient cash revenues to meet the short term funding needs of the program. Without funding during this upcoming 3 to 4 year period, site owners will have to borrow funds for an extended period of time, perhaps for 10 years or more. Most dry cleaners do not have the financial ability to pay the financing cost or to obtain the financing required for the remediation of their sites without prompt reimbursement for the remediation. Without an interim funding plan, the site owners will not be able to complete their cleanups in a timely manner, if at all.

The Dry Cleaner Environmental Response Council hereby recommends the following actions:

1. An increase in the DERF fee to 2.8% and that the State implement revenue bonding sufficient to provide funding during the next 3 to 4 year peak demand with principle and interest paid by DERF fee proceeds as shown in Table 6.

2. Closer coordination between DNR and DOR particularly in respect to identifying unlicensed dry cleaners in the state. This is important not only to revenue collection but to compliance with environmental regulations. At this time, it is difficult for DNR to obtain the list of licensed dry cleaners in the state. Because dry cleaner licenses are considered to be tied to tax returns, the list of licensed dry cleaners can not be published or disclosed. This makes it difficult to identify those dry cleaners that are not licensed.

Table 1

Dry Cleaner Environmental Response Program

Actual Revenues to date (November 30, 2006)

	License Fee	Solvent Fee	Solvent Inventory	Interest	Total
Fiscal Year 98	$ 232,604.00	$ 83,439.00	$ 123,022.00	$ 7,820.00	$ 446,885.00
Fiscal Year 99	$ 947,993.00	$ 245,562.00	$ 223.00	$ 45,673.00	$ 1,239,451.00
Fiscal Year 00	$ 1,103,692.92	$ 150,367.91		$ 108,474.35	$ 1,362,535.18
Fiscal Year 01	$ 779,359.84	$ 200,121.06		$ 164,828.80	$ 1,144,309.70
Fiscal Year 02	$ 866,676.48	$ 185,037.25		$ 65,793.50	$ 1,117,507.23
Fiscal Year 03	$ 943,767.54	$ 157,192.25		$ 45,659.27	$ 1,146,619.06
Fiscal Year 04	$ 929,318.15	$ 82,604.42		$ 31,220.80	$ 1,043,143.37
Fiscal Year 05	$ 831,851.01	$ 135,993.87		$ 47,608.33	$ 1,015,453.21
Fiscal Year 06	$ 895,732.97	$ 141,549.78		$ 67,153.02	$ 1,104,435.77
Fiscal Year 07	$ 391,199.39	$ 51,658.25		$ 20,802.35	$ 463,659.99
Total to date	$ 7,922,195.30	$ 1,433,525.79	$ 123,245.00	$ 605,033.42	$ 10,083,999.51

Figure 1

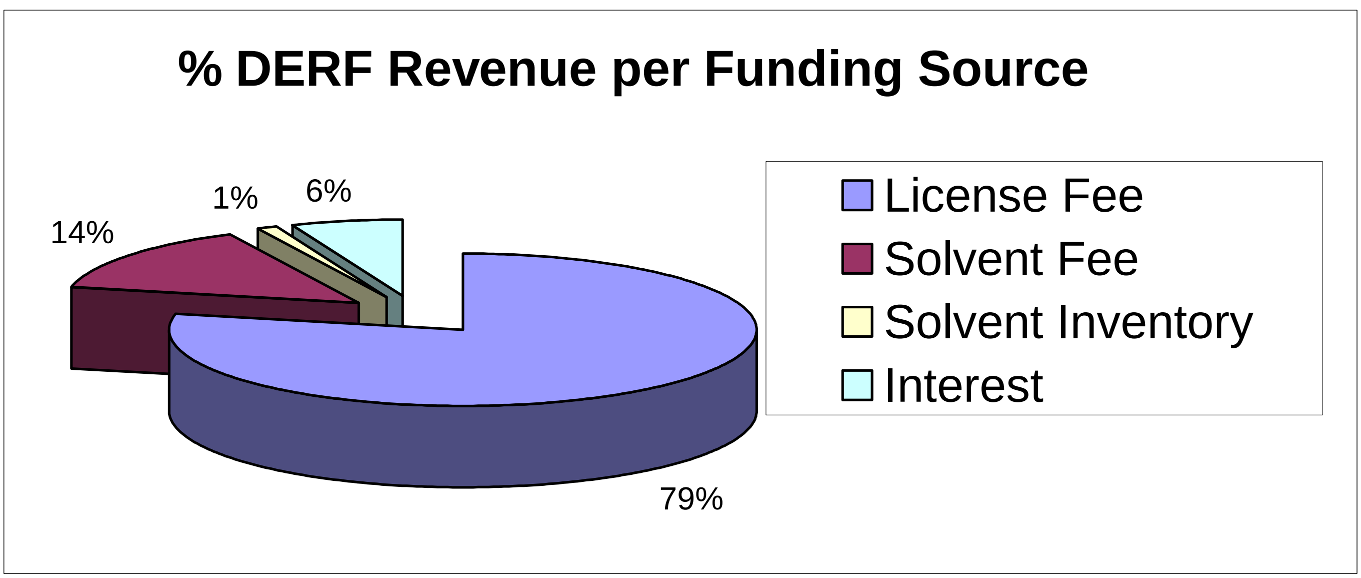


Table 2

Summary of Costs for Site Investigation and Cleanup[1]

Remedial Phase	Minimum	Maximum	Average	SCRD[2] Average
Complete Site Investigation	$7,400	$150,500	$53,500	$127,800[3]
Total Cost to Closure[4]	$16,900	$483,400	$76,000	$296,000[5]

Notes:
[1] All costs rounded to nearest $100. Wisconsin costs include deductible paid by dry cleaner.
[2] SCRD = State Coalition for the Remediation of Drycleaners
[3] SCRD Average Site Investigation Cost based on 85 sites. Site investigations of less than $20,000 not included.
[4] Cost to Closure based on 16 closed DERF sites. 22 DERF sites have been closed. Six never submitted reimbursement requests.
[5] SCRD Costs to Closure based on 26 sites. These are generally the sites that were easiest to clean up. Several sites in the SCRD database exceed $2M and have not closed.

Table 3

Total Reimbursement Payments[1], by Risk Level

	Past Costs[2]	High Risk	Medium Risk	Low Risk	Total Reimbursed	Total # of Reimbursements
FY01	$369,740		$728,214	$4,564	$1,102,518	19
FY02	$179,600		$388,268	$24,662	$592,530	14
FY03			$930,503	$288,242	$1,218,745	25
FY04		$122,349	$320,503	$65,130	$507,982	12
FY05		$289,678	$1,026,223	$276,116	$1,592,017	31
FY06		$668,744	$728,479	$317,891	$1,715,114	49
FY07[3]		$405,000	$331,990	$345,935	$1,082,925	32
Totals	**$549,340**	**$1,485,771**	**$4,454,180**	**$1,322,540**	**$7,811,831**	**182**

Notes:
[1] Payments rounded to nearest dollar
[2] Past Costs were incurred between 1/1/1991 and 10/14/1997. These costs are no longer accepted for reimbursement.
[3] FY07 reimbursements through Nov. 30, 2006.

Figure 2

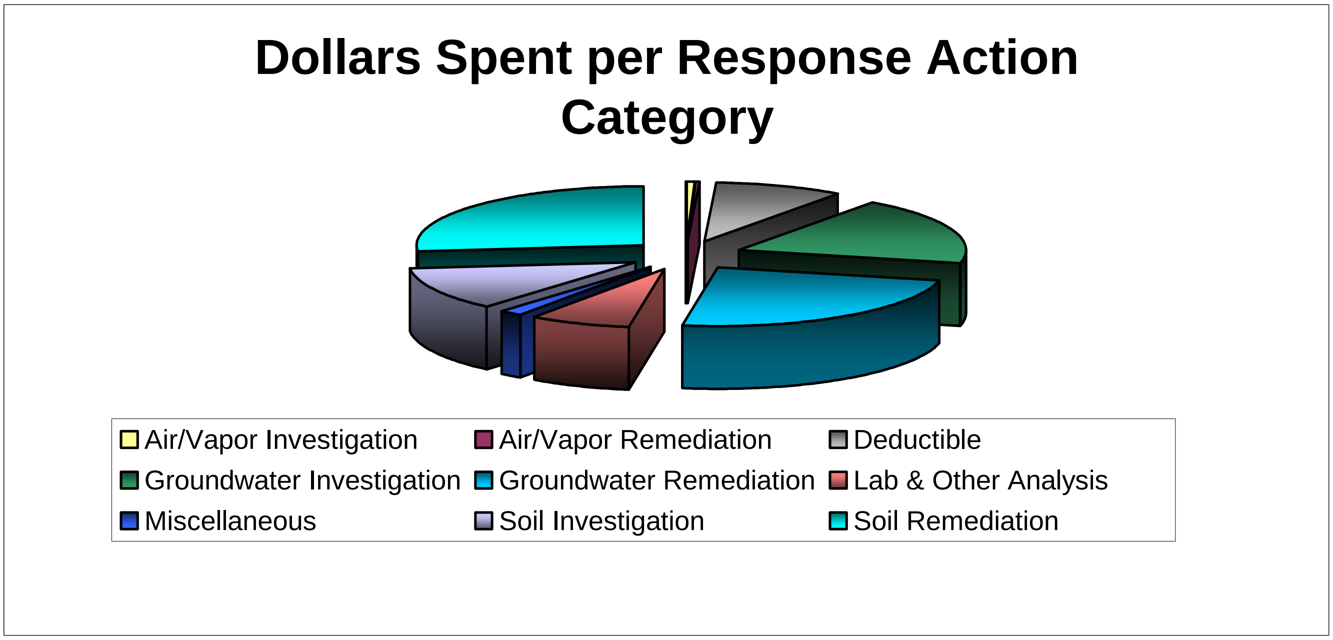
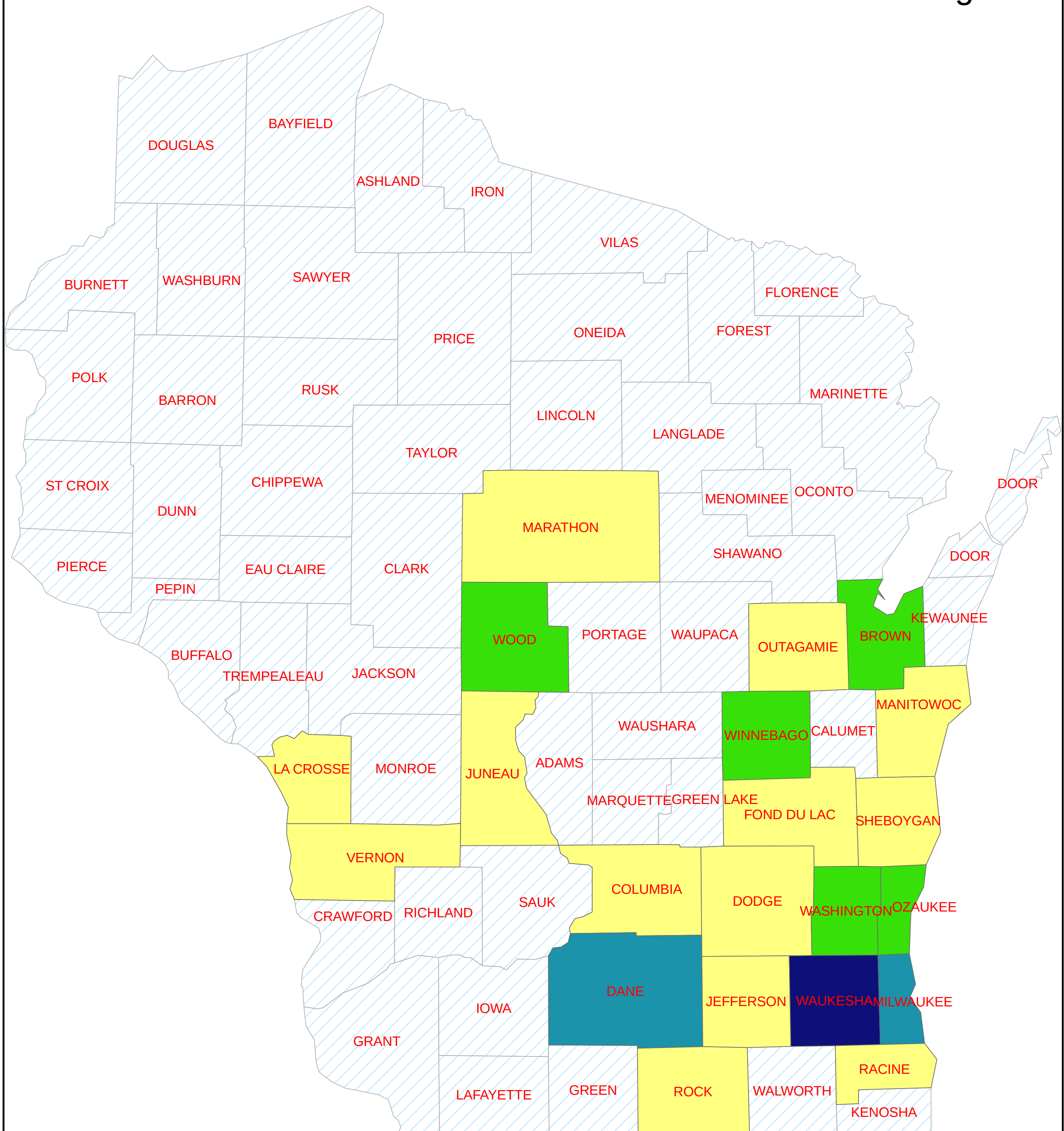

Dollars Spent per Response Action Category
Air/Vapor Investigation
Air/Vapor Remediation
Deductible
Groundwater Investigation
Groundwater Remediation
Lab & Other Analysis
Miscellaneous
Soil Investigation
Soil Remediation

Figure 3



Legend

DERF Dollars Reimbursed By County

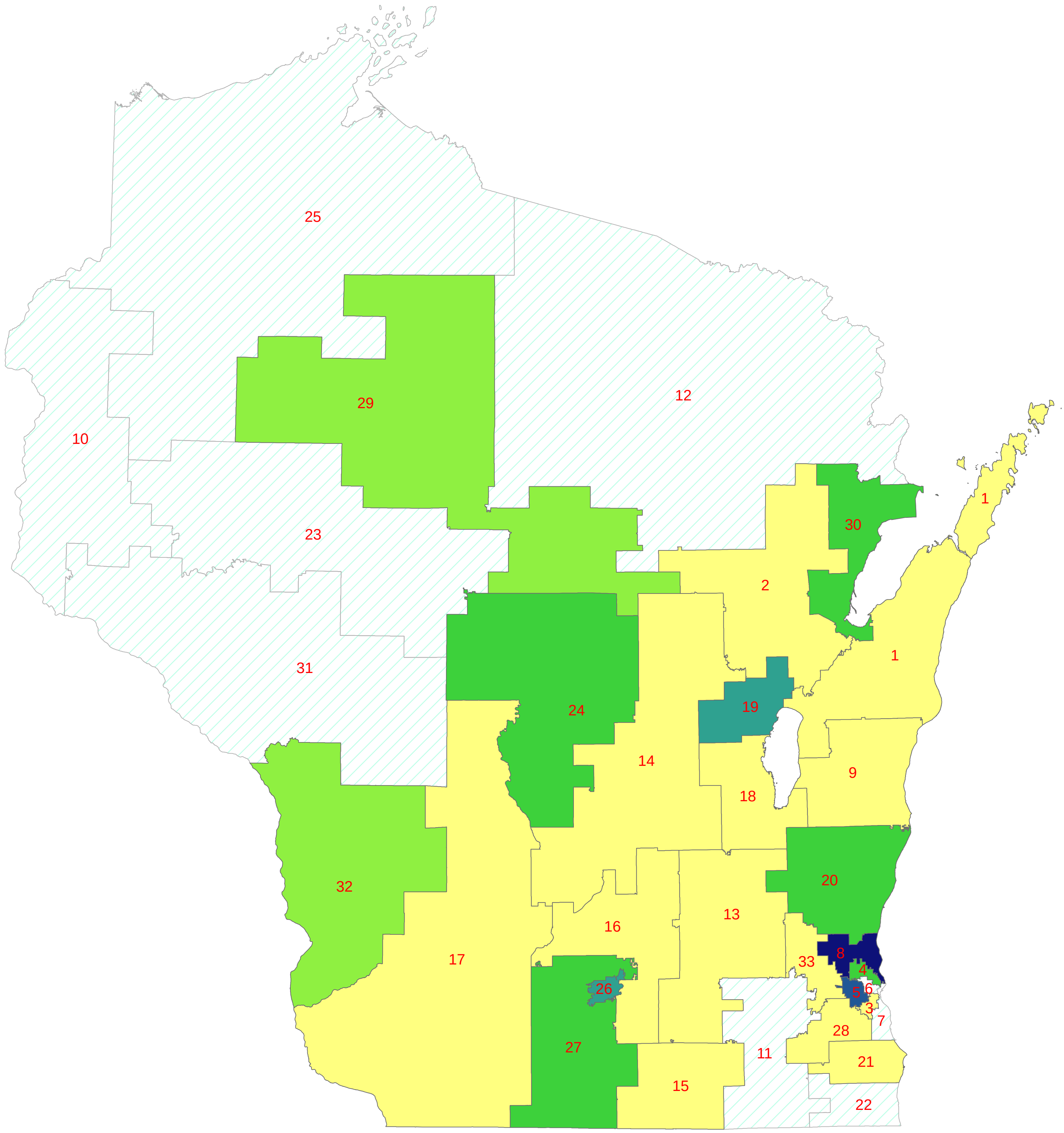
6878. - 400,000.

> 400,000. - 800,000.

> 800,000. - 1200,000.

>1,200,000. - 1,600,000.

Figure 4

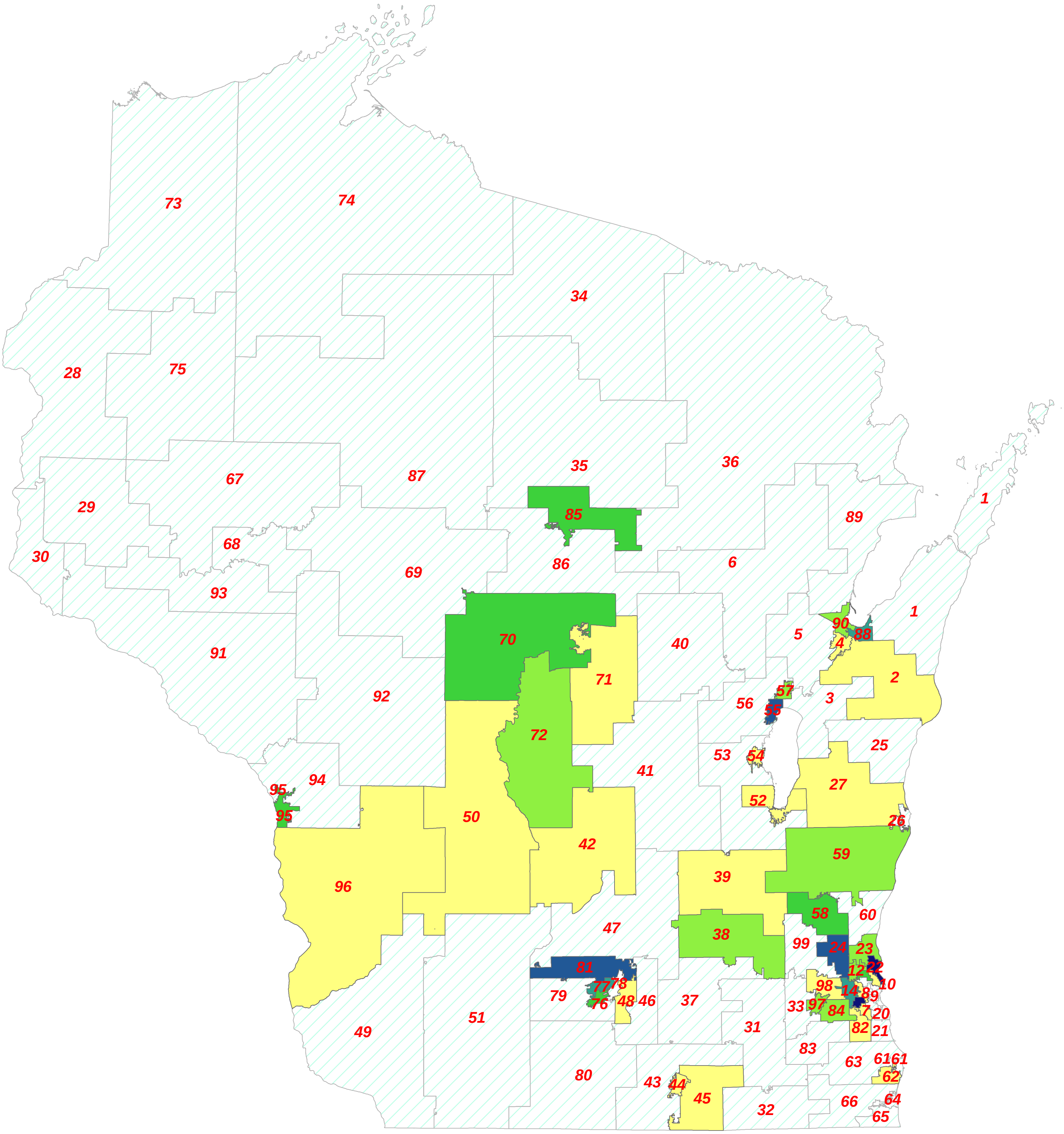


Legend

DERF Dollars Reimbursed **By Senate District**

7,410. - 200,000.	
> 200,000. - 400,000.	> 600,000. - 800,000.
> 400,000. - 600,000.	> 800,000. - 1,000,000.
	>1,000,000. - 1,200,000.

Figure 5



Legend

DEDF Dollars Reimbursed By Assembly District

6,878.00 - 100,000.	> 300,000. - 400,000.
> 100,000. - 200,000.	> 400,000. - 500,000.
> 200,000. - 300,000.	> 500,000. - 600,000.

Table 4
Projected Demand on DERF

D.C. license %	1.8
% increase	-
increase authority	-
projected income	$ 1,050,000
est. projected expendable $	$ 750,000

	total projected payments	revenue available	$ left	
* FY year'06	$ 1,715,114	$ 2,600,000	$ 884,886	FY year'06
FY year'07	$ 2,916,000	$ 1,934,886	$ (981,114)	FY year'07
FY year'08	$ 3,240,000	$ (231,114)	$ (3,471,114)	FY year'08
FY year'09	$ 2,490,000	$ (2,721,114)	$ (5,211,114)	FY year'09
FY year'10	$ 2,070,000	$ (4,461,114)	$ (6,531,114)	FY year'10
FY year'11	$ 1,350,000	$ (5,781,114)	$ (7,131,114)	FY year'11
FY year'12	$ 900,000	$ (6,381,114)	$ (7,281,114)	FY year'12
FY year'13	$ 450,000	$ (6,531,114)	$ (6,981,114)	FY year'13
FY year'14	0	$ (6,231,114)	$ (6,231,114)	FY year'14
FY year'15	0	$ (5,481,114)	$ (5,481,114)	FY year'15
FY year'16	0	$ (4,731,114)	$ (4,731,114)	FY year'16
FY year'17	0	$ (3,981,114)	$ (3,981,114)	FY year'17
FY year'18	0	$ (3,231,114)	$ (3,231,114)	FY year'18
FY year'19	0	$ (2,181,114)	$ (2,181,114)	FY year'19
FY year'20	0	$ (1,131,114)	$ (1,131,114)	FY year'20
FY year'21	0	$ (381,114)	$ (381,114)	FY year'21
FY year'22	0	$ 368,886	$ 368,886	FY year'22
	$ 15,131,114			

Assumptions:

1. DERF Revenue will continue at the rate in the row above labeled "est. projected income".
2. Estimated costs for all projected new projects (* except actual '06 payment)
3. For current unpaid eligible projects we used their estimate for Site Investigation costs if available (if not we used $50K site investigation costs) and then projected out the same $30,000 for three years after t
for Remediation costs.
4. For current paid projects we estimated $40,000 for the next year payment
and $36,000 for the next year payment. So we estimated $76,000 payment for remaining remedial actions.
A very conservative number.

Table 5
Effect of Fee Increase on Projected DERF Revenues

This assumes our current spending authority is $750,000.

	% charged for DC retail	2.30%		2.80%		5%	
	% increase above 1.8%	27.7		55.5		177.7	
	est. increase in authority	$ 174,107		$ 375,000		$ 1,258,928	
	est. projected income	$ 1,294,107		$ 1,425,000		$ 2,308,928	
	est. projected expendible $	$ 924,107		$ 1,125,000		$ 2,008,928	
	total projected payments	revenue available	$ left	revenue available	$ left	revenue available	$ left
FY year'08	$ 3,240,000	$ 924,107	$ (2,315,893)	$ 1,125,000	$ (2,115,000)	$ 2,008,928	$ (1,231,072)
FY year'09	$ 2,490,000	$ (1,391,786)	$ (3,881,786)	$ (990,000)	$ (3,480,000)	$ 777,856	$ (1,712,144)
FY year'10	$ 2,070,000	$ (2,957,679)	$ (5,027,679)	$ (2,355,000)	$ (4,425,000)	$ 296,784	$ (1,773,216)
FY year'11	$ 1,350,000	$ (4,103,572)	$ (5,453,572)	$ (3,300,000)	$ (4,650,000)	$ 235,712	$ (1,114,288)
FY year'12	$ 900,000	$ (4,529,465)	$ (5,429,465)	$ (3,525,000)	$ (4,425,000)	$ 894,640	$ (5,360)
FY year'13	$ 450,000	$ (4,505,358)	$ (4,955,358)	$ (3,300,000)	$ (3,750,000)	$ 2,003,568	$ 1,553,568
FY year'14	0	$ (4,031,251)	$ (4,031,251)	$ (2,625,000)	$ (2,625,000)		
FY year'15	0	$ (3,107,144)	$ (3,107,144)	$ (1,500,000)	$ (1,500,000)		
FY year'16	0	$ (2,183,037)	$ (2,183,037)	$ (375,000)	$ (375,000)		
FY year'17	0	$ (1,258,930)	$ (1,258,930)	$ 750,000	$ 750,000		
FY year'18	0	$ (334,823)	$ (334,823)				
FY year'19	0	$ 589,284	$ 589,284				
FY year'20	0						
	$ 10,500,000						

Assumptions:

1. DERF Revenue will continue at the rate in the row above labeled "est. projected income". "est. increase in authority" assumes that $750,000 is current est. spending authority.
   With the surplus now gone assume that $300K removed each year for personnel, as reflected in "est. projected expendible $" row
2. Estimated costs for all projected new projects (* except actual '06 payment)
3. For current unpaid eligible projects we used their estimate for Site Investigation costs if available
   (if not we used $50K site investigation costs) and then projected out the same $30,000 for three years after that
   for Remediation costs.
4. For current paid projects we estimated $40,000 for the next year payment
   and $36,000 for the next year payment. So we estimated $76,000 payment for remaining remedial actions.
   A very conservative number.

Table 6
Projected Revenue and Reimbursement with $8.5M Bond plus 2.8% Fee Increase

$1,125,000 income is the new useable yearly dollar amount if we raise the DC fee % to 2.8%

	total projected	Dollar in the fund with the addition of $2.125M loan each of the first 4 years	running total of $ borrowed at interest rate of 5.5%	First 3 years payments are based on 15 years loans then the last year the loan payment through the end is based on a 12 year loan to finish all at **5.5%**	dollars left at the end of the year
FY	payments	dollar available in fund	**total** Borrowed	interest & Principle payment 5.5%	YR end fund balance
08 FY	$ 3,240,000	$ 3,250,000.00	$ 2,125,000.00	$ 208,356.24	$ (198,356.24)
09 FY	$ 2,490,000	$ 3,051,643.76	$ 4,250,000.00	$ 416,712.60	$ 144,931.16
10 FY	$ 2,070,000	$ 3,394,931.16	$ 6,375,000.00	$ 625,068.84	$ 699,862.32
11 FY	$ 1,350,000	$ 3,949,862.32	$ 8,500,000.00	$ 969,168.68	$ 1,630,693.64
12 FY	$ 900,000	$ 2,755,693.64	-	$ 969,168.68	$ 886,524.96
13 FY	$ 450,000	$ 2,011,524.96	-	$ 969,168.68	$ 592,356.28
14 FY		$ 1,717,356.28	-	$ 969,168.68	$ 748,187.60
15 FY		$ 1,873,187.60	-	$ 969,168.68	$ 904,018.92
16 FY		$ 2,029,018.92	-	$ 969,168.68	$ 1,059,850.24
17 FY		$ 2,184,850.24	-	$ 969,168.68	$ 1,215,681.56
18 FY		$ 2,340,681.56	-	$ 969,168.68	$ 1,371,512.88
19 FY		$ 2,496,512.88	-	$ 969,168.68	$ 1,527,344.20
20 FY		$ 2,652,344.20	-	$ 969,168.68	$ 1,683,175.52
21 FY		$ 2,808,175.52	-	$ 969,168.68	$ 1,839,006.84
22 FY		$ 2,964,006.84	-	$ 969,168.68	$ 1,994,838.16

$3,130,107.55	for interest on only the 12 year loan
$343,599.94	for interest on only the 3rd year loan
$229,066.62	for interest on only the 2nd year loan
$114,533.30	for interest on only the 1st. year loan
$3,817,307.41	Total interest estimate for loan life